

v. 24 not 4
940.92
M683

V.24 no 1-4



940.92
M683

GIFT OF
J. M. Beck.

University of Pennsylvania Lib
Circulation Department

Return this book as SO

1

ECONOMIC WAR

AND A

LEAGUE of NATIONS

OR

WHY GERMANY MUST PAY

BY
J. S. HECHT

Author of "Free Trade or Free Production," "A Challenge to Economists," etc.

LONDON
P. S. KING & SON, LTD.
ORCHARD HOUSE, WESTMINSTER
1918

UNIVERSITY
OF
PENNSYLVANIA
LIBRARY

4 ECONOMIC WAR AND A LEAGUE OF NATIONS

If now a nation outside this group offers to supply, and can more efficiently produce, a certain article "A," it would appear at first sight that its acceptance must benefit both the group and humanity. But neither individuals nor nations supply their products at *cost*, for their price includes a profit, and it is this which in each case decides the wealth increase. The importation of the article "A" at a lower price results immediately in the loss of this profit from its production both to the nation and the individual, and in order to pay for it an article "B" must be made and exported, so that the question arises, is the nation's profit more thereby than it would have been had "A" been *made* instead of imported. It appears to be unrecognized that the Nation's profit is that of the manufacturers *plus* the workers' wealth wage, i.e. the excess paid beyond the living wage, hence it is the wealth increase per worker employed which is the decisive factor. Now it is indisputable that this increase is greatest in skilled industries, for if skill, under which is included also the use of brains attuned to a greater efficiency, did not produce a greater value per hour, there would be no use in it. Thus in producing a given value, a nation's cost is less the greater the average skill of the workers, so that if the aforesaid article "B" were the product of a less skilled industry than "A," its national cost of production would be more, as it would use up the lives of more workers to produce the same value, and in importing "A" and exporting "B" the nation will lose as compared with producing "A" for itself, apart from the saving in transport, etc. Of course if the nation were unsuited to produce "A," and could not educate itself to this higher production, it would be forced to descend to the industry "B," and might actually do better in this than in "A" and have to be content with a worse industry and a lower standard of living.

Now there is no international competition in the most unskilled industries producing merely a living wage, except through the starvation of the workers, or by nations with a lower standard of living, and the higher the degree of skill and the greater the margin of profit per worker the

more severe will be this competition. Thus we are right in assuming "B" to be the product of a less skilled industry and the dislocation of an industry by foreign competition must result in descent to a lower one for, did a higher one follow, the competition would be more, not less, severe; nor will any rational nation of equal civilization offer to do our unskilled work for us or permit our workers to get wealthy at their expense.

If however a nation can and will supply the article "A" to us at less than the national cost of production, i.e. the living wage of the workers and the loss of irreplaceable raw material, *and for ever*, by all means let it do so and let us give up all attempts to develop this industry. Nevertheless if by the development of its inhabitants, or education, a nation can rise to a higher industry it ought to do so, as otherwise how will it utilize its skill? Every nation should do that for which it is best suited and which for a given number of working hours produces the greatest wealth per worker. Only thus can it aspire to an improvement in the condition of its workers, including an increase in leisure.

Nevertheless, every nation must be prepared to do its own unskilled work, unless a less civilized one will undertake it.

Considering two nations only it is evident that the one which sets more store by leisure could be undersold in all its best industries by the other more efficient or materialistic one, and further, that, owing to the gain in efficiency through a division of labour, i.e. concentration, and a greater output, a larger nation could always undersell a smaller one, so that complete freedom in the disposal of its products, or Universal Free Trade, is inconsistent with the recognition of the right of existence of small nationalities.

The Prevention of Economic War between nations will thus be best effected by the reservation to each nation of its right to refuse the importation of those articles in the production of which a high value per worker is realized because it is such industries, and such only, which are of advantage to the nation. Thus not Universal Free Trade,

6 ECONOMIC WAR AND A LEAGUE OF NATIONS

but Protection by each nation of its skilled industries and non-interference with production must form the foundation of Economic Peace and a League of Nations, for all wealth amassed by individuals or nations through trading operations merely increases the cost of production and benefits individuals or nations at the expense of others. Further, while all workers and the whole nation benefit by a better and continuous production, the profits of all traders and middlemen are associated with "profiteering" and the principal source of class warfare.

Professor Edwin Cannan in his recent book "Wealth" naively asks whether economics is the one science in which no progress has been made, and the answer is in the affirmative, for the theory that wealth is due to trade is fundamentally false and thus the whole structure built thereon. The Jevonian law of supply and demand, or as Professor Marshall puts it to-day, that "value is governed by the relation of demand to aggregate costs of production," is as absurd as the Karl Marx idea that because wealth is due to labour, labour is the measure of wealth, for in one case an infinite demand and in the other an infinite waste of labour can create an infinite value for a worthless article! The simple truth is that true or Intrinsic value is independent of both, and that, although unrecognized by economists, the measure of all values, or the unit of value, is the necessities of life of one man for one day, whereby the value of money and the living wage are also decided.

An increase in the exchange value of a necessary, due to demand, merely benefits the seller at the expense of the buyer, whereas the exchange value of all luxuries, and most luxuries have also some intrinsic value, is due solely to demand, so that it is a matter of opinion who benefits through the exchange. Thus just as there are two values, Intrinsic and Demand value, the sum of which is exchange value or price, so there are two forms of wealth, Utility or true Economic, and Luxury wealth, which are as distinct from one another as chalk from cheese. That Intrinsic value is a reality, although ignored by many economists, is evident from the fact that its present monetary value

ECONOMIC WAR AND A LEAGUE OF NATIONS 7

for the United Kingdom alone exceeds £1,000,000,000 per annum.

It is clear that the value of all necessities is measured by those consumed by one man in one day, but not quite so evident as regards luxuries, yet the exchange value of a luxury is decided by the quantity of necessities which will be sacrificed in order to obtain it.

Although restrictions denying to another nation, e.g. Germany, the right to interfere with our production cannot be considered provocative, because they must be recognized as not merely the right but the duty of every nation, unless competition is to be entirely abolished both among individuals and nations, Economic War has and always will exist in trading in a country in those products which it does not desire to make itself. Thus just as Universal Free Trade would mean universal and the most intense economic warfare, Protection for every nation's best industries would reduce it as far as possible and allow each nation to live its own life in its own way.

Thus far we have not considered the question of any preference, yet assuming equal quality, would a man not rather buy from his friends, and wherein lies the virtue of buying at the lower price to benefit one's self? If there be neutrals in this war they may indeed benefit through economic warfare at the expense of honest men, and in neutral markets that nation will win whose efficiency is highest or whose government gives the best assistance to industries producing the greatest value per worker, the products of which it alone benefits a nation to export. To exchange the Labour of fifty Englishmen for twenty-five Germans results in a loss to us and a gain to Germany every time.

And the effect of protection, or preferential duties on our power to compete in neutral markets, is *nil*, for the national cost of production is unaffected by duties or any artificial increase in prices which merely depreciate locally the value of money.

And if all the Allies give one another preference and only admit to the circle those nations who honestly adopt

8 ECONOMIC WAR AND A LEAGUE OF NATIONS

the principles of a League of Nations, what right has a criminal nation to complain, more than a felon of his prison fare, and what more powerful guarantee could exist for the peace of the World?

The conclusions to which we are driven are :

1. Protection for all skilled industries does not lead to economic war but limits it in each country to those articles which the nation benefits least by producing.

2. Universal Free Trade means Universal Economic War in every country and in every product, and is a denial of the right of existence of small nationalities.

3. All irreplaceable raw material belongs to the nation and should only be exported in exchange for similar raw material, or alternatively bear a high export tax, nor should any individual for his personal benefit be allowed to export such material, which he cannot replace, before the nation has extracted therefrom the greatest possible wealth increase.

4. Preferential treatment of one another by the Allies or all members of the League of Nations is the most powerful weapon for the preservation of the peace of the world.

5. Some economic war is unavoidable, and restriction of the commerce of a criminal nation for a generation at least and until full indemnities are paid in goods, the product of German labour, will be a warning to all future transgressors of the laws of the League of Nations.